4/1 R4105-27 A

THE CONFERENCE BOARD

information bulletin

The World's [illegible] nationals: A[illegible]llenge

[illegible]ein

number 84

© 1981 The Conference Board, Inc.

THE CONFERENCE BOARD
845 Third Avenue, New York, N.Y. 10022
THE CONFERENCE BOARD IN CANADA
25 McArthur Road, Ottawa, Ontario, K1L-6R3, Canada
THE CONFERENCE BOARD IN EUROPE
Avenue Louise, 207 Bte 5, B-1050 Brussels, Belgium

A recent Conference Board report noted that "business historians have described the 1960's and 1970's as the 'age of the multinationals.' In these decades larger corporations than the world has ever known leaped across national boundaries and seemed to challenge the power of governments to control them."[1] While this leap across national frontiers has involved corporations based both in the United States and in other major industrial countries, little has been written about the relative growth and standing of U.S. multinationals and of their foreign counterparts.

Indeed, over much of the past two decades it has been an all too familiar stereotype that the multinational corporation tends to be based in the United States. Much of this perception stems from Servan-Schreiber's famous *défi américain*, according to which it was "quite possible that the world's third greatest industrial power, just after the United States and Russia, will not be Europe, but American industry in Europe."[2]

Correspondingly, the activities of U.S. multinationals have tended to be identified both with a decline in U.S. economic power and with U.S. imperialism. Thus, the AFL-CIO noted in 1973 that "while the economy of the United States has been declining, expatriate Americans have forged a business empire that rivals the gross national product of Japan."[3] Similarly, another observer wrote not too long ago that "the term 'multinational corporation' is still largely a euphemism for the outward expansion of America's giant oligopolistic corporations."[4]

A related stereotype (which is only secondary to the present discussion) is that the multinational firm is privately owned. These perceptions may have been true when multinationals first began making their mark and being discussed, but they have long since been overtaken by events. In recent years, the form and sources of transnational investment have changed substantially. Not the least of these changes has been the rapid growth of multinationals based outside the United States, as well as the more recent appearance of state-owned enterprises among these firms.

Non-U.S. Multinationals: Some Implications

Multinational corporations (MNC's) used to be seen—and in some instances continue to be seen—as typically American creatures, since in many countries they were among the first to arrive and, outside Africa, have often been the most visible. That such a view continues to persist in many quarters, especially in academic circles, has been ascribed by one observer to the fact that "U.S. firms are easier to study because data on their foreign activities are the most detailed and extensive available."[5] But these perceptions tend to obscure a number of more recent trends that may have important implications.

Easily the most significant phenomenon—and one that finds further corroboration in the following section—has been the much more rapid expansion of MNC's based outside the United States relative to the growth of U.S.-based firms. Another little-appreciated development has been the fairly rapid growth in investments by firms from developing countries in other developing countries.

[1] Allen R. Janger, *Organization of International Joint Ventures*. The Conference Board, Report No. 787, 1980, p.v.

[2] Jean-Jacques Servan-Schreiber, *The American Challenge*. New York: Atheneum, 1968, p.3.

[3] "U.S. Multinationals—The Dimming of America." A report prepared for the AFL-CIO Maritime Trade Department Executive Board Meeting, February 15-16, 1973, Reprinted in *Multinational Corporations*. Hearings before the Subcommittee on International Trade of the Committee on Finance, United States Senate, Ninety-third Congress, First Session, February 26, 27, 28; and March 1 and 6, 1973, p. 448.

[4] Robert Gilpin, *U.S. Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment*. New York: Basic Books, 1975, p. 15.

[5] Malcolm Gillis, "Multinational Corporations and a Liberal International Economic Order: Some Overlooked Considerations," in Ryan C. Amacher, Gottfried Haberler, and Thomas D. Willett, eds., *Challenges to a Liberal International Economic Order*. Washington, D.C., American Enterprise Institute for Public Policy Research, 1979, p. 206. It has similarly been remarked that "in part, *le défi américain* was the result of *les statistiques américaines*." (Lawrence G. Franko, "Multinationals: the end of U.S. dominance." *Harvard Business Review*, November-December 1978, p. 97.)

Louis Wells of Harvard reports that Indian companies have subsidiaries in Sri Lanka, Malaysia and Kenya; Argentine firms have established production facilities in Brazil, Chile and Uruguay; and countries such as Indonesia find themselves hosting subsidiaries of companies headquartered in the Philippines, Korea, Taiwan, Singapore and Hong Kong. He feels that for developing countries looking for technology or management from abroad, such investment by other developing countries offers "a politically and perhaps economically attractive alternative to the multinational enterprise."[6]

While it has been estimated that U.S.-based companies still account for as much as half of the world's total foreign investment, the actual overseas growth of European and Japanese firms has been much faster than that of their U.S. counterparts. It has been suggested that this development may well contribute to the ability of developing countries that act as hosts to MNC's to attain their national objectives more easily, "because LDC's wanting foreign direct investment now face a much wider choice of multinationals with which they can do business."[7] Thus, it is argued, host countries now can do a better job of "playing off" multinationals against each other in negotiating terms and conditions of entry.

If this development, in turn, serves to improve the bargaining position of developing countries—so the argument goes—one might expect a somewhat smaller degree of uncertainty in the foreign investment climate than has been true in the past. In other words, anything that enhances the developing countries' bargaining strength—in this case a larger choice of potential investors—would tend to reduce the chances of future renegotiation or even expropriation and, hence, introduce a greater element of predictability into the foreign investment process.

It is certainly true, as a recent Conference Board study has noted, that host countries have expressed "growing confidence in their abilities to deal with foreign companies." They are aware, moreover, that heightening competition among companies from a number of countries "provides another sturdy bargaining tool."[8] But non-U.S. multinationals have been active abroad for a long period of time—often much longer than their U.S. counterparts—even if their visibility may have been less pronounced. Thus, whatever new prominence non-U.S. MNC's have been gaining away from their home territories, particularly in developing countries, reflects almost exclusively their recent growth relative to U.S.-based firms.

In comparing various aspects of U.S. and non-U.S. multinationals' performance abroad, another

A Note on the Data

The data used in this report are taken from *Fortune* magazine's annual listings of the 500 largest industrial corporations in the United States and the 200 (500 since 1975) largest industrial firms outside the United States. The *Fortune* rankings are based on sales, and all but one of the tables given here reflect that basis. While one may debate how best to measure business size, one observer feels that "to the extent that *Fortune* correctly reflects business thinking on the 'best' measure of size, sales may well be the appropriate index."[1]

Still, in comparing sales data for U.S. and foreign firms one runs up against the twin difficulties of different accounting and reporting practices and of currency conversion. First, consider differing methods of financial reporting. In Europe, for instance, some companies include subsidiary sales only in proportion to their holdings, thus making it almost impossible to arrive at exact comparisons between sales data for U.S. and non-U.S. firms. Moreover, reporting periods—that is, the companies' fiscal years—often differ widely.

The data are further distorted by changes in relative currency values. Thus, in years in which the dollar declines sharply against other major currencies, sales data for companies from those countries increase more in dollars than in local currencies, and the companies appear to have "grown" faster than they actually did. In dollar terms, companies from the same country may even switch rankings because of a combination of fiscal years ending in different months and exchange rate shifts in the interim.

[1]Stephen Hymer and Robert Rowthorn, "Multinational Corporations and International Oligopoly: The Non-American Challenge," in Charles P. Kindleberger, ed., *The International Corporation*. Cambridge, Mass.: M.I.T. Press, 1970, p. 61.

[6]Louis T. Wells, Jr., "The Internationalization of Firms from Developing Countries," in Tamir Agnon and Charles P. Kindleberger, eds., *Multinationals From Small Countries*. Cambridge, Mass.: The M.I.T. Press, 1977, p. 133. See also David A. Heenan and Warren J. Keegan, "The Rise of Third-World Multinationals," *Harvard Business Review*, January-February 1979.

[7]Gillis, p. 207.

[8]Robert Black, Stephen Blank, and Elizabeth C. Hanson, *Multinationals in Contention*. The Conference Board, Report No. 749, 1978, p. x.

recent Conference Board study stressed the often greater age and overseas experience of European MNC's.[9] The authors add: "Companies with long experience overseas were able to accumulate a storehouse of information about what foreign cultures were like, and how to deal successfully with people abroad. They were able to establish essentially friendly working relationships with local elites. . . . There was a long process of mutual education, the result of which, though often resented by local elites, has deep roots in local cultures" (page 29).

This legacy of both age and experience has a further implication: There is much accumulated knowledge about given overseas areas located in the headquarters of European MNC's, as well as in national governmental and other archives. Moreover, the above study points out that European companies, unlike U.S. firms, generally place staff members in foreign countries for relatively long periods of time. As a result, when these executives speak about the local environment, they can do so with greater and more persuasive authority than their U.S. counterparts. This, in turn, enables the parent company to base its perceptions of the situation abroad on "highly sophisticated intelligence" coming from within the firm.

Finally, the point has been made that the rise of non-U.S. multinationals may help dilute efforts by U.S. authorities to prescribe ever-tighter codes of conduct for the international operations of U.S. companies. It has been argued, for instance, that the longer Congress fails to recognize the growing role and importance of non-U.S. MNC's, "the greater the tendency to assume that strict enforcement of such codes will eradicate questionable activities."[10]

Governments of other industrial countries that are important bases for multinational corporate activities have felt under little, if any, pressure to follow suit and enact similar restrictive legislation. Even if they did so, it is doubtful whether they could find the proper mechanisms for enforcement. Thus, the relative freedom of conduct enjoyed by non-U.S. MNC's is seen as a throttle on U.S. regulation—although existing patterns of control by the U.S. authorities will persist as long as costs to the U.S. economy and to U.S. business interests are perceived to arise from the overseas operations of U.S. multinationals.

[9]Joseph LaPalombara and Stephen Blank, *Multinational Corporations in Comparative Perspective.* The Conference Board, Report No. 725, 1977.

[10]Gillis, p. 208.

Non-U.S. Multinationals: Growth and Size

A major point in the debate over the multinationals, exemplified by Servan-Schreiber's statement quoted earlier, has been the alleged predominance, in both numbers and size, of U.S.-based firms. This section presents various comparisons between the largest U.S. industrial corporations and the largest such firms outside the United States, both in overall terms and by major industries. Some of the qualifications that attach to such a general comparison are set out in the box.

At the simplest level—meaning the absolute number of large corporations—non-U.S. firms now are clearly in the majority (Chart 1). Whereas in 1963, U.S. MNC's accounted for two-thirds of the world's 100 largest companies and for three-fifths of the 500 largest, by 1979 their share had dropped to below one-half of each group.

Table 1 shows the non-U.S. companies among the world's top 100, broken down by country of origin. The country list had lengthened considerably by 1979, to include three companies from Latin America. That, of course, reflects the emergence of national oil companies into the top ranks in the wake of sharply higher oil prices.

The question of size is explored in somewhat greater detail in the next two tables. These present the distribution of the world's 500 largest industrial corporations, broken down into U.S. and non-U.S., by sales for 1963, 1971, and 1979 (Table 2) and by sales and country of origin for 1979 (Table 3).

Table 1: The World's 100 Largest Industrial Corporations, by Country of Origin

	1963	*1971*	*1979*
United States	67	58	47
Germany	13	11	13
United Kingdom	7	7	7
France	4	5	11
Japan	3	8	7
Italy	2	3	3
Netherlands-United Kingdom	2	2	2
Netherlands	1	2	3
Switzerland	1	2	1
Canada	—	—	2
Australia	—	1	—
Belgium	—	—	1
Brazil	—	—	1
Mexico	—	—	1
United Kingdom-Italy	—	1	—
Venezuela	—	—	1

Chart 1

The World's Largest Industrial Corporations

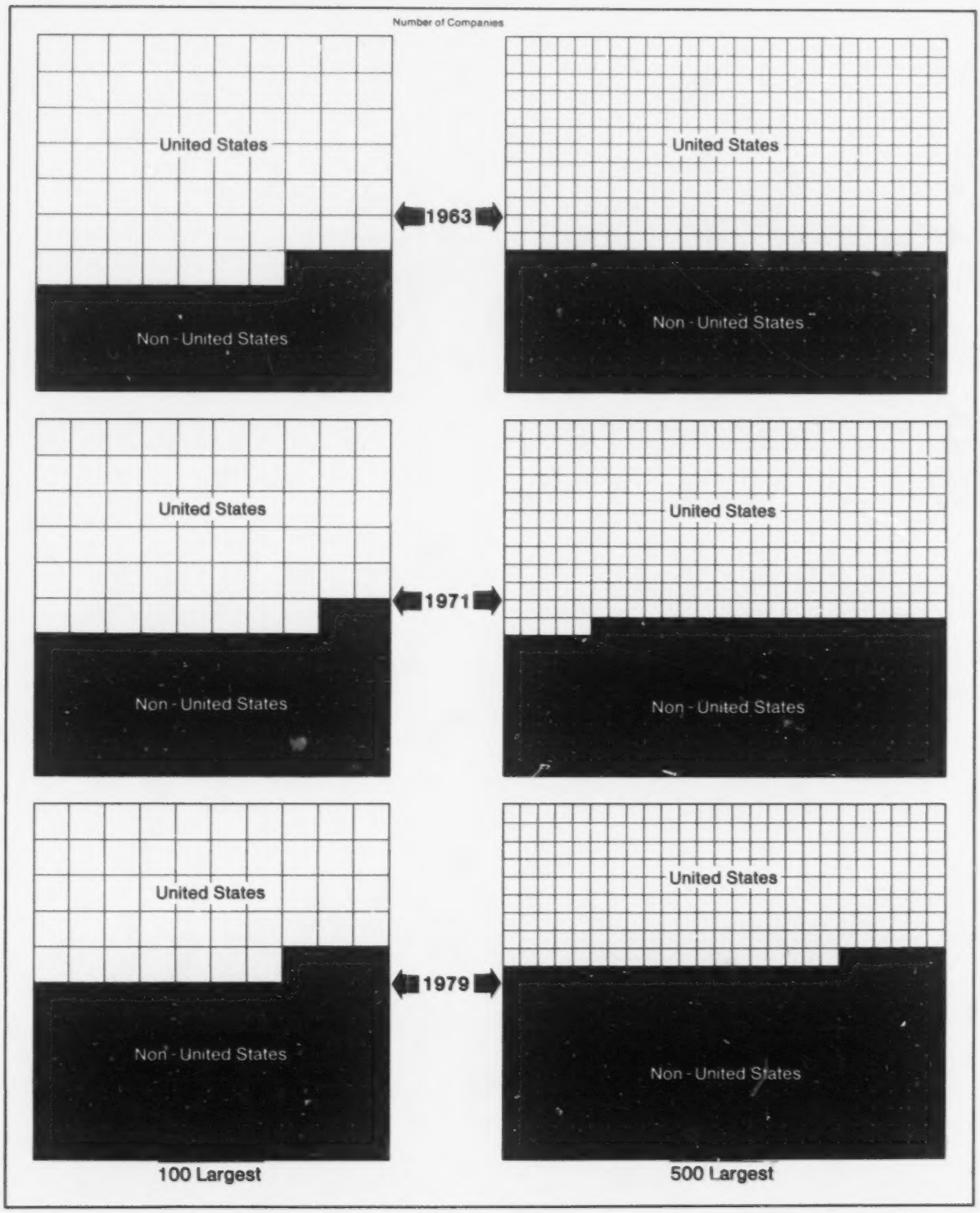


Table 2: The World's 500 Largest Industrial Corporations: Number of Companies by Sales

Sales ($ million)	1963		1971		1979	
	U.S.	Non-U.S.	U.S.	Non-U.S.	U.S.	Non-U.S.
Over $10,000	2	0	3	1	20	27
$5,000-$9,999	1	1	9	3	38	43
$3,000-$4,999	5	1	14	14	53	53
$1,000-$2,999	41	13	101	66	108	158
$ 800-$ 999	16	16	29	19		
$ 600-$ 799	25	20	51	48		
$ 400-$ 599	51	43	73	69		
$ 200-$ 399	127	87				
Less than $200	32	19				
Total	300	200	280	220	219	281

Table 3: The World's 500 Largest Industrial Corporations, by Sales and Country of Origin, 1979

Country	Number of corporations with sales (in billions) of					Total
	Over $10	$5-$10	$3-$5	$2-$3	$1-$2	
United States	20	38	53	62	46	219
Japan	6	5	12	21	27	71
United Kingdom	2	8	10	15	16	51
Germany	7	9	8	8	5	37
France	4	7	5	5	6	27
Canada	—	4	1	7	7	19
Switzerland	1	2	2	2	2	9
Italy	2	1	1	2	2	8
Sweden	—	1	2	4	1	8
Belgium	—	1	2	1	2	6
Spain	—	—	1	2	3	6
Netherlands	1	3	—	1	—	5
South Korea	—	—	2	1	2	5
South Africa	—	—	—	2	1	3
Australia	—	—	1	—	1	2
Austria	—	—	1	1	—	2
India	—	—	1	—	1	2
Netherlands-United Kingdom	2	—	—	—	—	2
Turkey	—	—	—	1	1	2
Argentina	—	—	1	—	—	1
Brazil	1	—	—	—	—	1
Chile	—	—	—	1	—	1
Finland	—	—	—	1	—	1
Israel	—	—	—	—	1	1
Kuwait	—	—	1	—		1
Luxembourg	—	—	—	—	1	1
Mexico	—	1	—	—	—	1
Netherlands Antilles	—	—	1	—	—	1
Norway	—	—	—	—	1	1
Philippines	—	—	—	—	1	1
Taiwan	—	—	1	—	—	1
United Kingdom-Italy	—	1	—	—	—	1
Venezuela	1	—	—	—	—	1
Zaire	—	—	—	—	1	1
Zambia	—	—	—	—	1	1
Total number of corporations: U.S.	20	38	53	62	46	219
Non-U.S.	27	43	53	75	83	281

Table 4: Combined Sales of 100 Largest U.S. and 100 Largest Non-U.S. Industrial Corporations ($ billion)

Company Group	1963 U.S.	1963 Non-U.S.	1963 Relative size ratio[1]	1971 U.S.	1971 Non-U.S.	1971 Relative size ratio[1]	1979 U.S.	1979 Non-U.S.	1979 Relative size ratio[1]
1-10	61.1	25.4	2.4	118.3	54.4	2.2	389.8	241.2	1.6
11-20	21.8	10.3	2.1	43.1	32.1	1.3	130.8	141.3	0.9
21-30	16.9	8.8	1.9	30.4	25.7	1.2	88.7	109.3	0.8
31-40	12.6	7.4	1.7	24.7	21.1	1.2	74.6	78.8	0.9
41-50	11.1	6.3	1.8	20.5	17.4	1.2	63.7	66.7	0.9
51-60	9.3	5.8	1.6	18.9	14.8	1.3	51.8	60.8	0.8
61-70	7.9	5.3	1.5	17.0	12.8	1.3	46.7	54.4	0.8
71-80	6.8	4.8	1.4	15.4	11.1	1.4	42.6	46.4	0.9
81-90	6.2	4.3	1.4	13.9	9.9	1.4	39.3	40.2	1.0
91-100	5.8	3.9	1.5	13.0	8.8	1.5	35.7	37.5	0.9

[1]Ratio of total sales of U.S. to non-U.S. corporations within a given grouping.

Although the United States accounts for only about two-fifths of the total output of the world's industrial countries, U.S. firms traditionally have been quite prominent among the corporations in the top sales categories. This lead had disappeared by 1979, however, when it no longer held true even in the very largest (over $10 billion) bracket.

It certainly is no coincidence that recent years have witnessed a similar drop in the U.S. share in world banking. In 1956, 44 U.S. banks were to be found among the world's top 100, accounting for 52.4 percent of those banks' total deposits. By 1978, the top 100 contained only 15 U.S. banks, holding 14.8 percent of deposits. These data are, of course, subject to numerous qualifications. However, as Governor Wallich of the Federal Reserve pointed out recently: "They are not . . . at all surprising. The American economy has been growing more slowly than most others. The role of American banks in international lending has been diminishing relatively recently. The devaluation of the dollar . . . probably contributed on balance to the reduction in the U.S. share."[11]

The breakdown by sales and country of origin reveals even more clearly the inroads made into previous U.S. predominance by firms from virtually around the world. Not only has the list of foreign countries lengthened—to 32 from 22 contained in a 1971 United Nations listing of the 650 largest companies—but it also includes several of the smaller industrial countries as well as a number of developing ones.[12] As pointed out above, the appearance of the latter reflects primarily the growth in sales of national oil companies. True, the largest third-world multinationals also include firms in the food, textile, mining and metal refining sectors. But their new prominence by itself clearly does not warrant the statement that for the developing countries "the engine of growth is that familiar institution, once confined to the developed world, the multinational corporation."[13]

The phenomenon of relative size is examined from another angle in Table 4, which compares the aggregate sales, by groups of ten companies, of the 100 largest U.S. and the 100 largest non-U.S. companies for the three years included in Table 2. Two major features of this table are worth noting. First, among the top ten companies, sales of the U.S. MNC's are considerably larger than the sales of the non-U.S. firms. Further down the line the relative size ratio declines, however, and from approximately the 50th largest corporation on it more or less stabilizes for all three years.

Second, within this general pattern, the combined sales of the U.S. firms relative to their foreign counterparts have been declining in each group over the period covered. Thus, total sales for the ten largest U.S. firms were about two-and-a-half times as large in 1963, but only slightly over one-and-a-half times in 1979. And by that year, the U.S. sales in the remaining nine groups were actually smaller than non-U.S. sales.

When relative size is measured on the basis of assets rather than sales (Table 5), the U.S. predominance is fairly constant in 1963, dwindles considerably by 1971, and has disappeared—except in the top ten—by 1979. (A comparison of U.S. and

[11]Henry C. Wallich, "American Banks During the 1970's and Beyond." Remarks at the Roundtable on Credit Systems in the 1970's. Perugia, Italy, September 5-7, 1980, p. 5 of Federal Reserve System press release.

[12]United Nations, *Multinational Corporations in World Development*. New York, 1973, ST/ECA/190, p. 127.

[13]Heenan and Keegan, p. 101.

Table 5: Relative Size of 100 Largest U.S. and 100 Largest Non-U.S. Industrial Corporations, by Asset Size and Number of Employees

Company Group	Ratio of total assets of U.S. to non-U.S. corporations			Ratio of number of employees of U.S. to non-U.S. corporations		
	1963	1971	1979	1963	1971	1979
1-10	2.8	1.5	1.2	0.9	1.5	1.2
10-20	2.2	1.4	0.9	0.8	0.8	0.9
21-30	1.2	0.9	0.6	0.8	0.6	0.8
31-40	1.3	0.8	0.8	1.0	0.5	1.0
41-50	1.3	1.2	0.6	1.0	0.8	0.5
51-60	1.4	1.3	0.7	0.6	0.8	0.8
61-70	1.4	0.9	0.6	1.0	1.0	0.8
71-80	1.3	0.8	0.6	0.7	1.4	0.7
81-90	1.4	1.3	0.6	0.5	0.9	0.9
91-100	1.2	0.9	0.6	0.8	0.9	2.0

non-U.S. companies by assets is, of course, subject to the same caveats regarding currency conversion and reporting practices as the comparison by sales.) Measured on the basis of the size of staff, U.S. "dominance" appears only in scattered brackets in each of the three years.

Some students of multinationals have also compared the size of U.S. corporations with the size of the leading non-U.S. corporations on a company-by-company basis for individual foreign countries. This meant setting each of the 25 largest U.S. companies against the corresponding firms in each of the major industrial countries.[14] In such a comparison, the United States naturally looks gigantic—which may well have contributed to the feeling by foreign countries of being "overwhelmed" by U.S. business. But such an array tends to prove very little: U.S. corporations are interested mainly in their foreign competitors collectively and not separately.

Similar comparisons of each of the leading U.S. and non-U.S. companies in major industries are also not very satisfactory,[15] since again a given U.S. corporation faces the aggregate of its major foreign competitors in world markets—and not just the one that happens to occupy the equivalent place outside the United States. Moreover, in such an analysis, the results predictably vary from industry to industry. In chemicals, for instance, U.S. and non-U.S. producers are fairly evenly balanced among the world's top ten or twelve. The largest U.S. firms are considerably smaller than their foreign counterparts, while the medium-sized U.S. companies are slightly larger. In foods, the two largest foreign firms likewise are considerably larger than the two largest U.S. producers; however, U.S. firms occupy the third through eleventh places. In the automobile industry, on the other hand, U.S. firms have—almost by definition and certainly by dint of concentration—a huge lead in size over their nearest foreign competitors.

These industry data can be presented in a more meaningful way by calculating for several major sectors the share held by U.S. firms among the world's top twelve corporations and, alternatively, by comparing the size of the three largest U.S. firms with that of the three largest non-U.S. firms (Table 6). In such a comparison for six major industries, the U.S. share among the world's top twelve ranged from one-quarter in pharmaceuticals to two-thirds in oil. The top three U.S. companies were only one-quarter as large as the top three foreign ones in pharmaceuticals, but more than twice their size in automobiles.

Multinationals and National Economies

The data presented in the previous section have made it amply clear that over the past 20 years or so non-U.S. multinationals, primarily from Western Europe and Japan, have enhanced their position in the world economy at the expense of U.S.-based firms. In addition, competition from state-trading companies in developing countries, from state-trading activities in Socialist economies, and from nationally owned or closely controlled enterprises in major European countries are all bringing about further fundamental changes in global trading and investment patterns.[16]

[14] Stephen Hymer and Robert Rowthorn, "Multinational Corporations and International Oligopoly: The Non-American Challenge," in Charles P. Kindleberger, ed., *The International Corporation*. Cambridge, Mass.: The M.I.T. Press, 1970, p. 62.

[15] Hymer and Rowthorn, p. 63.

[16] See, for example, Yair Aharoni, "The State-Owned Enterprise as a Competitor in International Markets," *Columbia Journal of World Business*, Spring 1980.

Table 6: The World's Twelve Largest Corporations in Six Major Industrial Sectors, 1979

Sector	(1) Total sales, 12 firms ($ billion)	(2) Sales, U.S. firms only ($ billion)	(2) / (1)	(3) Sales, three largest U.S. firms ($ billion)	(4) Sales, three largest non-U.S. firms ($ billion)	(3) / (4)
Food	87.3	48.7	55.7%	20.6	38.7	53.4%
Chemicals	120.2	37.2	30.9	31.0	43.1	71.9
Pharmaceuticals	73.6	18.7	25.4	10.8	43.1	25.1
Metal manufacturing	100.4	28.1	27.9	28.1	34.2	82.1
Automobiles	251.9	121.8	48.4	121.8	52.4	232.8
Oil	399.7	265.3	66.4	162.2	117.1	138.5

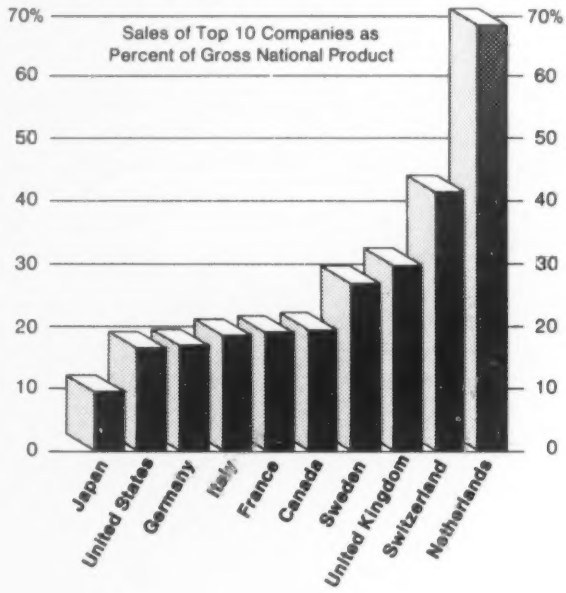
The temptation always arises to set these activities against the broader framework of world economic activity—although such a comparison is too facile and, in a sense, misleading. But even while cautioning against such a comparison in its 1973 study, the United Nations felt that "the general conclusion that many multinational corporations are bigger than a large number of entire national economies remains valid."[17] A similar analysis by The Conference Board last year found that the world's top 100 economic units in 1978 consisted of 61 countries and 39 industrial corporations, 21 of which were foreign-based.[18]

As was pointed out at that time, ranking countries with companies obviously means double counting. The two do not fall into separate compartments since the output of a country's enterprises is a subset of that country's national product and not additional to it. Moreover, gross national product merely tallies the value added by a country's producing units, while sales data reflect the cumulative cost of all components at successive stages of production. In addition, a company's receipts include sales at all levels, including sales of raw materials, intermediates and finished products. A given end product may thus appear in the receipts of different companies and even more than once in the same company's receipts.

Still, being fully aware of these and related qualifications, it is interesting to note how in most of the major industrial countries the top ten corporations "account" for a larger role of total economic activity than in the United States (Chart 2). Thus, the non-U.S. challenge can be seen to have emerged in this particular dimension as well.

Chart 2

Multinationals and National Economies, 1979



[17]United Nations, 1973, p. 13.

[18]John Hein, "The top 100 economies," *across the board*, May 1980.